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Thank you for inviting me to offer some observations on S.2902, the "Broadband Internet Regulatory Relief Act of 2000". I am a securities analyst specializing in the telecommunications industry, and I am here to offer my opinion on three issues that are related to this proposed legislation: 1) the challenges faced by incumbent local exchange carriers (ILECs) in making large investments; 2) how uncertainty surrounding the regulatory treatment of broadband infrastructure frustrates the analysis of returns on this investment; 3) the ramifications of the proposed legislation on investment in consumer broadband services.

The ILECs face specific challenges in executing a consumer broadband investment strategy that are worth your consideration. The success of any publicly traded company is in no small part a function of the success of its stock price. In order to marshal the troops into battle, a general must have the confidence of his soldiers. On the battlefield, this confidence is bred by a general's success in combat. In a publicly traded company a CEO must have the confidence of his employees. This confidence is bred by the performance of the company's stock price. The problem for large ILEC CEO's is that the stock market generally does not respond well to significant increases in investment spending like that required for consumer broadband. While such investments may bear fruit over the long-term, the investment community tends to focus on the reduction to near-term earnings growth caused by the investment and sells the shares. I believe that large ILECs are particularly vulnerable to this kind of reaction to investment because their primary shareholder base has a sharp focus on consistency of earnings growth. SBC Communications is a case in point. The company's stock price, which has traded in the low to mid $40 per share range for most of this year, has not recovered to the high of $59 per share reached in mid-July 1999. I think that this is in no small part a function of the "Project Pronto" initiative announced in the fourth quarter of last year.

This leads to my second point about the difficulty in estimating investment returns. What is particularly agonizing, from the standpoint of a large ILEC CEO, is that his investor base has to deal not only with the up-front cost of the investment in consumer broadband services but also the uncertainty about the ability to get a return. I mean here not the uncertainty about the market-place demand for the service that many new investments entail but uncertainty driven by the specter of regulation. I find that the following unknowns complicate the return analysis: 1) additional costs may be imposed on the ILEC to modify its network architecture to accommodate competitive local exchange carriers (CLECs); 2) ILECs may be required to bear risks of market adoption for CLEC services; and, 3) that there may be delays in implementing the service based on mandated changes to the technology and network design. The last of these is especially risky given the very competitive environment that is emerging in consumer broadband services. The point is that there are so many variables in this equation that it's very hard (maybe impossible) to figure out. The approach adopted by many investors is to avoid the ILEC stock. Many prefer to invest in consumer broadband by investing in shares of companies that are attempting to deliver these services through cable or wireless infrastructure because the return analysis is less complicated. I'd also be surprised if the uncertainty created by the regulatory risks doesn't also frustrate the ILEC business planners who must justify the investment in consumer broadband services to their respective boards of directors. The current regulatory ambiguity simply does not lend itself well to stimulating investment in consumer broadband. Maybe this is why only SBC Communications has launched an aggressive rebuild of its outside plant to deliver broadband services.

The last point that I'd like to make concerns the perception that competition in consumer broadband services will slow if regulators do not require extensive interconnection with and unbundling of new consumer broadband investments that the ILECs make. My view is that consumer broadband represents one of the great growth opportunities for the telecommunications and media industries and that there will be no shortage of competition here. Cable operators are spending tremendous sums of money to upgrade their networks to provide broadband services and have targeted consumer broadband services as among their brightest growth prospects. Just yesterday, AT&T indicated that the plant serving more than 60% of its 28 million home cable footprint has been upgraded for broadband services. The company plans to be at 80% by year-end. In addition, owners of satellite-based distribution systems, MMDS frequencies, and PCS frequencies are all investing heavily to provide consumer broadband services. There also appears to be a concern about the fate of CLECs as a result of this legislation. Business plans that are based solely or in great part on obtaining access to new ILEC investment in advanced services facilities are very high-risk business plans in my opinion, and the investment community is well aware of these risks. Companies relying heavily on this source of revenue are having a much harder time raising money today than they are were a year ago.